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SUBJECT: GERMAN BANKING REGULATORY FEUD RESOLVED

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¶1. (U) On February 5, the two chief German banking regulatory bodies ended a long-standing feud over who will have ultimate oversight in the German banking sector. In a much anticipated decision, the Bundesbank in Frankfurt ceded most regulatory authority (banking supervision, sanctions, etc) to Bonn-based BaFin (Federal Financial Supervisory Authority). The Bundesbank will retain responsibility for the continuous monitoring of banking activities by evaluating auditors' reports, annual financial statements as well as the risk management and capital reserves of banks. It will provide information to BaFin so that the latter can carry out its watchdog duties, such as issuing or revoking banking licenses, removal of bank managers, or imposing of moratoria.

¶2. (U) Initial reports indicate that Finance Minister Steinbrueck strongly urged Bundesbank and BaFin to come to an agreement on their own or face the prospect that he make the decision for them. The Finance Ministry publicly expressed satisfaction with the solution as it reduces redundancy, increases transparency, and demonstrates that banking oversight in Germany is "strong and decisive."

Comment

¶3. (SBU) This decision appears to resolve a number of unclear aspects in the division of labor in regulatory oversight of the German banking sector. A possible resolution has been months in the making and while BaFin officials told us (most recently in January) that BaFin would be pleased with any resolution that resulted in better transparency, it appears that BaFin won the turf battle.

¶4. (U) This message was coordinated with Embassy Berlin and CG Frankfurt.

BOYSE